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September 23, 2009

VIA HAND DELIVERY

Chairman Sara Kyle
c/o Ms. Sharla Dillon
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243

***Re: Appropriateness of Implementation of PURPA Standard 5 (Energy Efficiency)
and Standard 6 (Rate Design Modification) for Piedmont Natural Gas,
Chattanooga Gas Company, and Atmos Energy Corporation
Docket No. 09-00065***

Dear Chairman Kyle:

Enclosed please find an original and five (5) copies of the Written Statement of Piedmont Natural Gas, Inc. Regarding Compliance With Federal Energy Efficiency Planning and Rate Design Standards. This document also has been filed by way of email sent today to the Tennessee Regulatory Authority Docket Manager, Sharla Dillon.

Please stamp one copy of this Petition as "filed" and return to me by way of our courier.

Should you have any questions concerning any of the enclosed, please do not hesitate to contact me.

With kindest regards, I remain

Very truly yours,



R. Dale Grimes

RDG/lfr

Enclosures

Chairman Sara Kyle

September 23, 2009

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cc: Hon. Mary Freeman (*w/o enclosure*)
Hon. Eddie Roberson, Ph.D. (*w/o enclosure*)
Hon. Kenneth C. Hill, DRE (*w/o enclosure*)
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**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

IN RE:)	
)	
APPROPRIATENESS OF)	
IMPLEMENTATION OF PURPA)	
STANDARD 5 (ENERGY EFFICIENCY))	DOCKET NO. 09-00065
AND STANDARD 6 (RATE DESIGN)	
MODIFICATION) FOR PIEDMONT)	
NATURAL GAS, CHATTANOOGA GAS)	
COMPANY, AND ATMOS ENERGY)	
CORPORATION)	
)	

**WRITTEN STATEMENT OF PIEDMONT NATURAL GAS COMPANY, INC.
REGARDING COMPLIANCE WITH FEDERAL ENERGY EFFICIENCY PLANNING
AND RATE DESIGN STANDARDS**

Piedmont Natural Gas Company, Inc. ("Piedmont"), through counsel and pursuant to the procedures established in the September 9, 2009 Status Conference in this proceeding, respectfully submits the following Written Statement regarding the status of compliance with the federal energy efficiency principles and rate design standards set forth in subsections 532(b)(5) and 532(b)(6) of the Energy Independence and Security Act of 2007 ("EISA 2007").

BACKGROUND

Subsections 532(b)(5) and 532(b)(6) of EISA 2007, which amend 15 U.S.C. § 3203, requires the Tennessee Regulatory Authority ("TRA" or the "Authority") to consider whether to adopt certain federal energy efficiency and rate design principles relative to the natural gas utilities under their jurisdiction. With respect to energy efficiency principles, subsection 532(b)(5) of EISA 2007 requires the Authority to

determine whether it should require natural gas utilities operating within the State of Tennessee to: (1) integrate energy efficiency resources into their plans and planning processes, and (2) adopt policies that establish energy efficiency as a priority resource in their plans and planning. With respect to rate design principles, subsection 532(b)(6) of EISA 2007 requires the Authority to consider whether to adopt rate designs that align utility incentives with the deployment of cost-effective energy efficiency programs and whether to adopt such specific rate design mechanisms as: (1) separating fixed-cost recovery from the volume of transportation or sales service provided to the customer; (2) providing to utilities incentives for the successful management of energy efficiency programs, such as allowing utilities to retain a portion of the cost-reducing benefits accruing from the programs; (3) promoting the impact on adoption of energy efficiency as one of the goals of retail rate design, recognizing that energy efficiency must be balanced with other objectives; and (4) adopting rate designs that encourage efficiency for each customer.

At an Authority Conference conducted on May 18, 2009, the Authority initiated a proceeding for the purpose of determining the appropriateness of the implementation of the federal standards for gas utilities described above. This determination was subsequently reflected in the Authority's June 15, 2009 *Order Opening Docket and Appointing Hearing Officer* in this proceeding.

On June 1, 2009, Petitions to Intervene were filed by Piedmont, Chattanooga Gas Company ("CGC"), and Atmos Energy Corporation ("Atmos"). On June 3, 2009, a Petition to Intervene was filed by the Consumer Advocate and Protection Division of the Office the Attorney General ("Consumer Advocate").

On June 3, 2009, a Status Conference was held for the purposes of reviewing and determining the issues, and setting a procedural schedule. The parties agreed to file comments as to the appropriateness of the federal standards no later than August 4, 2009, and any response to those comments no later than August 18, 2009.

Comments were filed in this proceeding by Atmos on August 3, 2009, and by Piedmont, CGC, and the Consumer Advocate on August 4, 2009. Piedmont's comments indicated support for several of the federal energy efficiency and rate design principles reflected in EISA 2007 but recommended that the Authority not formally adopt these standards because: (1) Piedmont was already in compliance with several of those standards; and (2) because implementation and adoption of the other standards was more properly and efficiently conducted under prevailing State law in discrete proceedings, rather than as a generic "one-size-fits-all" determination.

On September 9, 2009, a status conference was conducted in this proceeding in which the parties to this proceeding agreed to file further written statements describing the state of compliance with the federal energy efficiency and rate design standards set forth in EISA 2007.

STATEMENT

Piedmont respectfully submits the following description of the state of compliance with the federal energy efficiency planning and rate design principles articulated in EISA 2007 as they relate to Piedmont's operations within the State of Tennessee.

I. FEDERAL ENERGY EFFICIENCY PRINCIPLES FOR NATURAL GAS COMPANIES.

Section 532(b)(5) of EISA 2007 requires the Authority to consider whether it should require natural gas utilities to (1) integrate energy efficiency resources into their

plans and planning processes, and (2) adopt policies that establish energy efficiency as a priority resource in their plans and planning. These federal energy efficiency planning standards have already been largely adopted and are in use by Piedmont. For example, Piedmont already takes energy efficiency resources into account in its plans and planning processes by adjusting long-term, annual, and seasonal supply and capacity planning for the effects of conservation and energy efficiency. Further, as is evidenced by its recent filing in Docket No. 09-00104, Piedmont has proposed to implement several natural gas energy efficiency programs designed to encourage its customers to conserve energy through several means. Inasmuch as Tennessee law already permits the Authority to consider and rule on such mechanisms and to examine the supply and demand planning processes of the natural gas utilities under its jurisdiction, the goals of the federal legislation have already been met and no additional action needs to be taken by the Authority with respect to this aspect of EISA 2007.

II. FEDERAL RATE DESIGN PRINCIPLES FOR NATURAL GAS COMPANIES.

Section 532(b)(6) of EISA 2007 sets forth four rate design principles meant to promote energy efficiency and conservation for consideration by the Authority. These principles, as described above, are: (1) separating fixed-cost recovery from the volume of transportation or sales service provided to the customer; (2) providing to utilities incentives for the successful management of energy efficiency programs, such as allowing utilities to retain a portion of the cost-reducing benefits accruing from the programs; (3) promoting the impact on adoption of energy efficiency as one of the goals of retail rate design, recognizing that energy efficiency must be balanced with other objectives; and (4) adopting rate designs that encourage efficiency for each customer.

Unlike the energy efficiency planning principles described above, these principles have not been adopted by the Authority or implemented by Piedmont, although Piedmont has a pending request for implementation of the first principle.

With regard to the first federal rate design principle, the separation of fixed cost recovery from the volumes of transportation or sales service provided by a natural gas utility is a critical step in aligning the interests of customers with a utility's shareholders with respect to conservation. Without such a "decoupling" mechanism in place, predominantly volumetric rate structures provide a powerful incentive for natural gas utilities to actively promote increased per customer consumption and an equally powerful disincentive to the facilitation of decreased per customer consumption through conservation or energy efficiency measures. Such decoupling mechanisms are necessary to align the otherwise conflicting interests of customers and gas utilities around reductions in per customer usage resulting from conservation, energy efficiency, or other causes. These mechanisms are a critical component in the active pursuit of natural gas conservation and efficiency. Currently, no such mechanisms exist in Tennessee for Piedmont or any of the other natural gas utilities subject to the Authority's jurisdiction.¹ However, Piedmont has recently requested approval by the Authority of a margin decoupling tracker mechanism and approval of associated energy efficiency programs in Docket No. 09-00104. Approval of these programs and margin decoupling tracker mechanism will effectively implement the first federal rate design principle set forth in EISA 2007.

¹ Piedmont has an approved margin decoupling mechanism in place in North Carolina and a Rate Stabilization mechanism in place in South Carolina.

It is noteworthy that the State of Tennessee has recently committed itself to the promotion of such mechanisms on no less than two occasions. First, in Governor Bredesen's March 23, 2009 certification to the United States Secretary of Energy, the Governor certified that this Authority would seek to implement a general policy that ensures that utility financial incentives are aligned with helping their customers use energy more efficiently. This certification was required as a condition of the receipt of stimulus funds under the American Recovery and Reinvestment Act of 2009. Second, in the recently enacted Senate Bill No. 2357, the General Assembly established as the policy of the State of Tennessee that this Authority will seek to implement, in appropriate proceedings for gas utilities over which the Authority has rate making authority, a general policy that ensures that utility financial incentives are aligned with helping their customers use energy more efficiently. Both of these certifications of State policy strongly support the first principle of federal rate design in EISA 2007 that calls for the alignment of utility and customer interests around reductions in customer usage of natural gas.

Similar to the situation with the first principle of rate design articulated in EISA 2007, none of the remaining three rate design principles have been adopted by the Authority or by Piedmont with respect to its Tennessee operations. With respect to utility incentives for the successful management of energy efficiency programs, no such incentives have been approved by the Authority or are otherwise in effect for Piedmont or any of the other natural gas utilities operating in Tennessee. Piedmont strongly supports the concept of incentives as an effective and efficient means of promoting desired behavior and believes the Authority should consider such incentives in future

proceedings involving the promotion of energy efficiency by utilities. To be clear, however, Piedmont has not proposed the adoption of such incentive mechanisms in its pending request for approval of energy efficiency programs but reserves the right to do so in the future.

With respect to the third and fourth federal rate design principles articulated in EISA 2007 -- promoting the impact on adoption of energy efficiency as one of the goals of retail rate design, recognizing that energy efficiency must be balanced with other objectives, and adopting rate designs that encourage efficiency for each customer -- these principles have not been adopted either. Piedmont believes that these principles bear serious consideration but because they relate to complicated issues surrounding appropriate rate designs and cost allocation between customer classes, they should be examined in individual dockets involving discrete proposals.

In sum, Piedmont already considers the impacts of energy efficiency and conservation in its supply and capacity planning activities and this Authority actively supervises that process through existing regulatory mechanisms. Piedmont also has a proposal pending in Docket No. 09-00104 which will implement a margin decoupling tracker mechanism and further promote the implementation of effective utility-sponsored energy efficiency programs for the benefit of Piedmont's customers. Piedmont strongly supports the approval of its margin decoupling tracker as consistent with the first federal rate design principle set forth in EISA 2007. The remaining three federal rate design principles articulated by EISA 2007 are potentially beneficial mechanisms that are not currently in effect in Tennessee but bear further examination in discrete proceedings. Piedmont is confident that in the context of such proceedings, which can be pursued

under existing State law, the Authority will be able to discern the public interest inherent in each such principle in the context in which it is sought to be applied.


WHEREFORE, Piedmont Natural Gas Company, Inc., respectfully requests that the Authority accept its statement as set forth above.

Respectfully submitted this 23d day of September, 2009.

Piedmont Natural Gas Company, Inc.



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*by R.D.G.
w/permission*